Manitoba's position on:

Agriculture

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POSITION PAPER

ON

AGRICULTURE

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INTRODUCTION

Within the span of five short years, Canadian agriculture has been reduced from a growing and vibrant industry to one struggling to survive. Along with the unemployed, the farm sector bore the brunt of the high interest rate policy of the early 1980's. Other negative forces such as bad weather, weak market prices and rising costs compounded the impact of high interest rates and together drove the industry into an economic tailspin. Recovery from this situation has not been possible on its own, and will not likely occur in the forseeable future, given market and trade prospects for major agricultural commodities.

Clearly, the farm financial situation remains the prime issue confronting agriculture.

National policy triggered this severe financial deterioration within Canadian agriculture through the harsh financial blows leveled by high interest rates. Accordingly, the federal government must now demonstrate the commitment and policy leadership to reverse the downturn, and to restore agriculture to its rightful position as a major contributor to economic growth and job creation.

Federal policy leadership is desperately required in the areas of farm financing, market expansion and resource conservation and development. Manitoba and its sister provinces stand ready to cooperate with their programs and resources in fostering the farm recovery. We have already extended massive resource and financial commitments beyond our mandates and fiscal limitations. We want to see the same level of commitment from the federal government. Together, much can be accomplished. A joint effort by all is fundamental if measurable progress is to be made on the road to farm financial recovery.

However, much more than consultation, coordination and recommendations is required if we are to deal effectively with the problems facing farmers today. Action is required if there is to be any benefit from the consultations and study. It is essential that a commitment is made to take the actions that are recommended if this Conference is to produce meaningful results.

The Manitoba Government views the farm financial situation as being the most important issue to ensure a healthy agriculture and food sector within the Canadian economy. Therefore this issue will be discussed first and in greater length, followed by the discussions on the issues of trade, resource base sustainability and agricultural development.

FARM FINANCE

The farm financial situation has been the item of greatest concern at the Ministers of Agriculture meeting for several years. Many Canadian farmers continue to be in severe financial difficulty and prospects are slim that the situation will improve significantly within the next few years.

REVIEW OF FARM FINANCIAL DIFFICULTIES

While there is general awareness of the severe financial difficulties in which farmers find themselves, it is useful to briefly review the data to clearly define the problem.

The 1984 Farm Survey coordinated by the Farm Credit Corporation discovered that 20 percent of Canadian farmers were in severe[1/] financial difficulty. On a regional basis, the

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1/ Meets 1 to 3 of the following:

(a) If debt expenses (estimated principal plus interest payments) is greater than 40% of Farm Sales.
(b) If total borrowings intermediate and long term for 1983 are greater than 110% of total investment for 1983.
(c) If net worth is less than 15% of total assets.

problems were greatest in Alberta with 27 percent of farmers in severe difficulty while the Atlantic region had only 13 percent of their farmers classified as being in severe difficulty. An additional 8 percent of Canadian farmers were determined to be in moderate financial difficulty.

To bring these classifications into more personal terms, 46,394 farmers were in severe financial difficulty and 18,924 farmers were in moderate financial difficulty. This means approximately 250,000 Canadians, when the farm family is included, are under extreme financial pressures with very limited incomes on which to live and the emotional stress which results from these circumstances.

The farmers in greatest financial difficulty are the younger, beginning farmers who have had to borrow substantial amounts of capital to establish their farms. They have been hardest hit by high interest rates and low commodity prices. The FCC Survey has confirmed and quantified this assessment.

When the Survey results are analyzed on the basis of equity, the third with the lowest equity in the western provinces and Ontario had capital borrowings that exceeded their capital investment in 1983 (Table 1). In Manitoba this group borrowed an average of $33,972 but they only invested an average of $21,834 in capital assets. This means they had to borrow $12,000 to pay living expenses and to meet operating costs. In other words, on average their income fell $12,000 short of their requirements. According to the survey the greatest shortfall at $21,132 occurred in Alberta while in Quebec and the Atlantic region farmers in the low equity group made capital investments that exceeded their borrowings.

In contrast the medium equity groups in Manitoba were able to invest $24,666 in capital assets while borrowing only

$12,532. This group paid operating and living expenses and had a surplus of $12,134 for investment. In all provinces this group had a surplus to invest with the largest amount available at $18,235 being in Alberta.

There are two factors that distinguish the medium equity group from the low equity group. This first is length of time farming with the low equity group averaging 13 years and the medium equity group averaging 21 years.

The second is, of course, debt load. The low equity group in Manitoba had debts of $180,109 compared to only $61,114 for the medium equity group. Interest on the additional $118,995 in debt for one year at 13 percent is $15,500. This is the single most important item contributing to the financial difficulties being experienced by farmers today.

We had the data for Manitoba further analyzed by dividing the low equity group into two groups on the basis of equity. For this group of 1/6th of the farmers with the lowest equity, the length of time farming dropped to 10 years and average debt load increased to $221,404. The amount of capital borrowed in 1983 exceeded the amount invested by $16,025. This shortfall is equivalent to 7 percent interest on the total debt.

A brief look at the bankruptcy numbers (Table 2) confirms that the severe financial difficulties of some farmers is continuing. In 1984, a record number (511) of Canadian farmers declared bankruptcy. For the January-September 1985 period, 387 farmers had declared bankruptcy, second only to the 1984 level for this time period. We hardly need to be reminded that formal bankruptcies represent only the "tip of the iceberg" as many young farmers have choosen to sell out before the high interest rates on their debts have completely eaten up their equity.

The high bankruptcy rate can be expected to continue for at least two or three more years as it will take several years of good crops and improved prices for farmers teetering on the brink of bankruptcy to recover.

ACTIONS TO DEAL WITH FARM FINANCIAL DIFFICULTIES

Agriculture Ministers across Canada have been very concerned about the plight of farmers in severe financial difficulties for several years. This topic was the priority agenda item at their annual conference in July, 1984.

Because of the complexity of the problem, a Federal/Provincial Task Force on Agricultural Finance was established to investigate innovative mechanisms to meet the financial and credit needs of farmers.

A wide variety of financial instruments is necessary to respond to the diverse needs of the industry. In particular, the Task Force was asked to investigate agribonds, credit and mortgage guarantees and interest rate insurance, as well as other ideas developed by farm organizations, lending institutions and the Task Force itself.

The Task Force reported to a special meeting of Agriculture Ministers in November, 1984 with twelve proposals for consideration. (See appendix for complete list.) It was agreed to recommend five proposals for immediate action and five proposals were referred for further study.

Of the five proposals recommended only two have been acted on to date: (1) improvements in cash advance programs and (2) extension of Small Business Bonds.

ACTIONS REQUIRED ON FARM FINANCE AND TAXATION

The combination of high interest rates and low commodity prices (relative to production costs) has made it impossible for young farmers without a large equity base to continue farming. The difficulties facing someone who wishes to start farming are even greater.

It is clear that concerted action by governments is required if this situation is to be turned around.

There are several options available to reduce interest costs to farmers. Two such options are:

1. Change national monetary policy so that real interest rates revert to acceptable levels.
2. Transfer public funds either directly through interest rate subsidies or indirectly through the tax system to lower farmers' interest rates to the desired level.

Immediate action, not study or coordination, is required on these options because every month that passes sees more farmers leave the industry and brings others that much closer to leaving.

One of the proposals for reducing interest costs has been the establishment of an agribond program.

In Prince Albert in July, 1984 the Prime Minister, the Right Honourable Brian Mulroney, made the following commitment:

> "We will establish an Agribond Program to provide loans at reduced rates to producers. A tax exemption for earned income on these bonds will be provided to encourage people to invest in this program."

When the Ministers of Agriculture met in November, 1984, the Honourable John Wise advised that agribonds would be referred to a committee of the House of Commons for further study. The Ministers accommodated Mr. Wise on this proposal by agreeing to place agribonds in the category of "referred for further study".

In spite of the urgency of the farm financial situation, the House of Commons Committee on Finance, Trade and Economic Affairs did not begin hearings on agribonds until March, 1985. The Committee recommended:

> "That the Minister of Finance consider the advisability of establishing an agribond program with the following conditions:
>
> **Eligible borrowers**: any farmer whose equity is between 20% and 50% of assets.
>
> **Approved lender**: Farm Credit Corporation.
>
> **Approved use of funds**: refinancing of existing debt for farmers who in the view of the Farm Credit Corporation would show potential of viability with the assistance of the bond.
>
> **Maximum term**: 5 years.
>
> **Maximum amount**: $300,000 per borrower.
>
> **Yield**: 8 percent.
>
> **Tax treatment of interest expense**: non-deductible.
>
> **Tax treatment of interest income**: non-taxable.
>
> **Program duration:** 1 year.
>
> **Program funding**: as pursuant to the Farm Credit Corporation Act and whereas the Farm Credit Corporation is in a non-taxable position, the difference between the yield on agribonds and prevailing market rates on comparable debt instruments would be appropriated from the Consolidated Revenue Fund."

It is now November, 1985 and there has been no action by the federal government to bring interest rates down to a level that will keep our young farmers in farming.

COST-PRICE SQUEEZE

Interest rates and large debt loads are not the only financial problem facing farmers. Low market prices and the high cost of inputs are also factors contributing to the financial difficulties.

Inadequate income stabilization programs at the national level have resulted in provincial governments establishing provincial programs in response to the real needs of farmers for income protection. The recent progress in developing national stabilization programs for beef cattle, hogs and sheep will be of some value in dealing with low market price problems.

The Western Grain Stabilization Plan, following amendments in June, 1984, has made two significant payments to participating western grain producers. The House of Commons Standing Committee on Agriculture is currently reviewing the WGSP. If they respond positively to the suggestions received, an improved program can be developed to deal with the problems of low grain prices.

Traditionally, rising input costs have not been effectively dealt with by government action. The exception has been those costs which are directly under the control of government. The decision to remove the federal excise tax last November from all farm fuels was welcomed by everyone. However, part of this saving was lost when the May budget imposed the two cent per litre excise tax on all fuels effective September 4th. The timing of this tax was very unfortunate, coming at the

beginning of a very tough harvest in Western Canada. The wet field conditions significantly increased fuel requirements to complete the harvest and the increase in fuel costs due to the tax increase was an unnecessary additional burden on farmers.

One very important area where the federal government can have a signficant impact is the cost of agricultural chemicals.

Agricultural chemicals play a particularly crucial role due to the significant impact they have on productivity. Financially hard pressed farmers who are unable to pay for high priced chemicals for weed or insect control risk substantial losses that could result in the loss of their farms if infestations are severe. This is not a case of bad management by the farmer. It is a case of knowing what should be done, wanting to do it, but being unable to do it because of the high price of the necessary agricultural chemicals.

Herbicide prices have escalated rapidly during the 1970 - 1985 period. As each new herbicide reaches the market, its unique properties enable the manufacturer to market it at a premium over existing herbicides. Pricing of the existing herbicides is maintained at relatively high levels by patent protection. The situation is aggravated by Agriculture Canada's policy of Product Specific Registration (PSR) which effectively extends the patent life of older products. The net effect has been to insulate the herbicide marketplace from competitive pressures which would otherwise serve to reduce pricing of these essential farm inputs.

The problem of the excessive cost of agricultural chemicals was reviewed at the provincial Ministers of Agriculture meeting in July, 1985. There was general agreement that a Commission of Inquiry was required to ascertain the facts about agricultural chemical pricing. The sooner action is taken

to initiate the inquiry, the sooner remedial action can be taken to reduce agricultural chemical prices.

CROP INSURANCE

Two successive years of drought in southern Saskatchewan and Alberta have identified some inadequacies in existing crop insurance programs. There have been some suggestions that a new formalized disaster relief program is required. Before such a proposal is adopted, the crop insurance program should be reviewed and any indicated improvements should be made.

One change that should not be made is the proposal by the Nielsen Task Force to transfer a significant part of the cost of crop insurance from the federal government to the provinces.

Any disaster relief program must clearly involve additional funding from the federal government. For most provinces, the provincial treasuries are not in a position to finance an extensive program. Provincial revenues will probably decrease as a result of the disasters and the resources of the entire country will be required to provide meaningful assistance. This must be new funding, not funding redirected from the existing crop insurance program.

TRADE

Export markets for Canadian agricultural products are being threatened by two factors:

(a) increasing protectionism among importing countries, particularly the United States; and
(b) aggressive selling activities, including the use of various

types of export subsidies, by competing grain exporters such as the EEC and the U.S.

In this environment, Canadian farmers need all the help they can get in order to preserve existing markets and to find new ones to absorb their increasing production potential.

The Federal/Provincial Agricultural Trade Relations Committee is in place to coordinate activities in trade and market development.

RESOURCE BASE SUSTAINABILITY

The long-run viability of Canadian agricultural depends on maintaining the basic productivity of the soil and water resource base. There are many programs in place directed toward this end. Research is ongoing that will enhance the effectiveness of these programs in the future.

The current financial situation of many farmers is having an advance effect on the conservation of our agricultural resources. Farmers in danger of losing their farms are in no position to make long term investments to conserve soil. A necessary condition to sustaining the resource base is a return to normal profitability of the farming sector so that farmers can turn their attention from survival to investments in the future.

The cost of agricultural chemicals has a large role to play in soil conservation. The zero and minimum tillage cultural practices now being developed depend on herbicides to control weeds. This soil conserving technology at the present cost of herbicides is more costly than conventional tillage technology for weed control.

AGRICULTURAL DEVELOPMENT

Historically agricultural research and technology transfer have been given high priority by federal and provincial departments of agriculture.

In this context it is important to note that shift has occurred in government spending on agriculture. In 1970-71, governments in Canada spent $740 million of which the federal government contributed 71 percent or $530 million. Ten years later (1980-81) the federal government spent $2.1 billion but this was only 59 percent of the $3.6 billion spent by all governments. (It should be noted that the growth in government expenditures just kept pace with the growth in agricultural output during this period.)

Programs in place, including Federal-Provincial Agri-Food Agreements, must be maintained if the potential for agricultural development is to be achieved. These programs must not become the victims of budget cuts designed as deficit reduction measures. Budget reductions in research and technology transfer programs would have a long-term negative impact on the growth of the industry and would be counterproductive.

SUMMARY

Canadian farmers are in the midst of the most serious financial difficulties faced by the industry since the 1930's. The time has come to take concerted action to deal with the problems facing the industry. Every month that passes without action results in more of the young, productive farmers, the future strength of the industry, being forced off their farms. Canada cannot afford to lose any more of these farmers.

TABLE I

COMPARISON OF CAPITAL INVESTED AND CAPITAL BORROWED AS A MEASURE OF FARM FINANCIAL DIFFICULTY - 1983

	B.C.	ALBERTA	SASKATCHEWAN	MANITOBA	ONTARIO	QUEBEC	ATLANTIC
			Low Equity				
Capital Invested	$32,575	$52,053	$45,511	$21,834	$31,770	$25,250	$29,750
Capital Borrowed	34,404	73,185	56,769	33,972	43,529	23,714	23,451
Excess of Investment Over Borrowed	(1,829)	(21,132)	(11,258)	(12,138)	(11,759)	1,536	6,299
Number of Years Farming	11	14	14	15	13	11	16
			Medium Equity				
Capital Invested	26,032	37,026	30,799	24,666	21,796	18,263	19,752
Capital Borrowed	8,493	18,791	16,820	12,532	7,744	8,980	5,657
Excess of Investment Over Borrowed	17,539	18,235	13,979	12,134	14,052	9,283	14,095
Number of Years Farming	20	21	23	25	21	18	20
			High Equity				
Capital Invested	5,910	17,700	17,139	14,040	6,208	9,252	5,274
Capital Borrowed	0	1,328	2,655	271	28	202	197
Excess of Investment Over Borrowings	5,910	16,372	14,484	13,769	6,180	9,050	5,077
Number of Years Farming	20	29	32	32	25	27	32

Source: 1984 Farm Survey; FCC - Tables 18, 19, 20

TABLE 2

FARM BANKRUPTCIES

	1979	1980	1981	1982	1983	1984	Jan-Sept. 1985
Newfoundland	-	-	1	1	1	1	1
Nova Scotia	3	6	4	3	8	5	1
P.E.I.	1	-	-	2	2	4	3
New Brunswick	1	1	3	2	6	2	6
Quebec	14	44	54	143	125	162	99
Ontario	65	123	140	176	165	154	119
Manitoba	1	14	14	30	62	62	49
Saskatchewan	14	16	19	24	45	48	29
Alberta	16	8	18	24	47	74	63
British Columbia	9	10	8	5	26	39	16
N.W.T.	1	-	-	-	1	-	1
Canada	125	222	261	410	488	551	387
Canada (Jan.-Sept.)	82	164	191	316	333	417	387

Source: Consumer and Corporate Affairs
Bankruptcy Branch

APPENDIX

BRIEFING NOTES - TASK FORCE ON AGRICULTURAL FINANCE

FEDERAL-PROVINCIAL MEETING OF MINISTERS

Toronto - November 7 & 8, 1984

Recommendation 6.1

Extend the Special Farm Financial Assistance Program (SFFAP) for two years to farmers in financial difficulty, accepting new participants and extending further benefits to existing participants.

Recommendation 6.2

Work with private lending institutions to promote the introduction and/or more wide-spread offering of financial instruments which are suited to the needs of agriculture in the 1980's and beyond. Some examples of instruments to be discussed include: long term fixed rate interest loans, accrued interest rate mortgages, shared appreciation mortgages, fixed rate operating credit, and shared risk mortgages as well as futures and options market.

Recommendation 6.3

Encourage commercial lenders to make more active use of the Small Business Bond (SSB) as a mechanism to assist in debt restructuring for farmers in financial difficulty.

Extend the period during which Small Business Bonds (SBB) can be negotiated beyond December 31, 1985 to December 31, 1989. Make provision to allow existing SBB's coming due before December 31, 1989 to be rolled into a new bond.

Recommendation 6.4

Provide guarantees for privately financed farm mortgages.

Recommendation 6.5

Develop a program of guarantees of intermediate term loans at fixed rates of interest for terms of one to five years.

Recommendation 6.6

Streamline and update the Farm Syndicates Credit Act to further encourage co-operative purchase of machinery.

Recommendation 6.7

Improvement in cash advance systems.

Recommendation 6.8

Develop a national agribond strategy. Further development requires Ministerial decisions on funding sources and levels, priority uses, and alternative agencies and means to deliver the program.

Recommendation 6.9

Examine the need for a national operating loan guarantee program for farmers in financial difficulty.

Recommendation 6.10

Prepare a study of the feasibility of new farmer controlled financial institutions, such as the farmers' bank proposal.

Recommendation 6.11

Examine further with experienced agencies such as CMHC, the development of a scheme to protect against interest rate increases on commercial mortgage loans.

Recommendation 6.12

Study the potential for a Registered Farm Investment Fund.

MACC

-- MACC's activity has increased very substantially in recent years. Current level of activity is $53 M in fixed term loans, $40 M in loan guarantees and $5.6 M in expenditures on special programs (Interest Rate Relief and Young Farmer Rebates).

-- The table below compares the current level of expenditures with expenditures during the period 1978-79 to 1980-81.

MACC

Average Annual Expenditures

	1978-79 to 1980-81	1985-86
Fixed Rate Loans:		
Direct Loans	$25.5 M	$24.5 M
Refinancing Program	--	20.0 M
Other Fixed Term	1.9 M	9.0 M
(includes Stocker, Corporate, Crown Land & Beef Commission)		
Loan Guarantees	1.9 M	40.0 M
Special Programs	0.7 M	5.6 M
(includes Interest Rate Relief and Young Farmer Rebate)		
Total	$30.0 M	$99.1 M

*Expenditures based on budgeted figures.

-- Characteristics of Clients:

- Average age of 26 years of age. (85% are 35 or under)
- Average gross income of about $60,000. (77% grossing $75,000 or less)
- Average net worth of $70,000 and average equity after loan of 41%.
- Average assets of $171,000, average liabilities of $100,000 and average net worth of $70,000.

- Residual earnings (i.e., earnings after payment of current expenses and repayment of loan) average $7,200 per client. 50% have residuals of less than $5,000. The residual earnings figure does not take into account funds required for capital replacement.

SPECIAL PROGRAMS

Interest Rate Reduction -- Assisted 640 MACC clients to take advantage of reductions in interest rates, by reducing their loan repayments by over $18 million.

Interest Rate Relief -- Program has extended $11 million of assistance to 1,250 clients.

Loan Guarantee Program -- Assisted approximately 700 producers to secure $25 million of guarantees in 1983-84 and $40 million in 1984-85. Projected loan guarantees for 1985-86 are $40 million.

Write Down of MACC Rates to 8% -- In writing down the interest rates of its clients to 8% for the fiscal year 1984-85, MACC provided $4.7 million of assistance to over 3,000 producers.

Comprehensive Refinancing Program -- The Corporation, during 1985-86, is extending $20 million of loans, at 9 3/4%, for purposes of debt consolidation. Assistance is being directed mainly to clients in severe financial distress.

BEEF PLAN

-- Over 6,000 producers participate in the program.

-- About 260,000 cows or 75% of the province's beef herd is enrolled.

-- To Sept. 30, 1985 the province has contributed:

$13.4 M	in productivity grants
6.7 M	in provincial premiums
24.4 M	in form of an interest free loan
$44.5 M	TOTAL

-- Producers have contributed premiums of $19.4 million.

HOG PLAN

-- Covers over 1,000 producers or 1/3 of total producers in the province.

-- Covers 52% of Manitoba hogs marketed.

-- Provincial contributions to the plan, as of Sept. 30, 1985, are:

$ 4.0 M	provincial premiums
7.9 M	interest free loan
$11.9 M	TOTAL

-- In addition to this total, the province has covered the interest expenses ($1.5 M) on the loan required to finance the hog plan deficit.

-- Producers have contributed $9.0 M in premiums.